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Operating Expenses in Retail Shoe Stores in 1919

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OPERATING EXPENSES IN RETAIL SHOE STORES IN 1919

INTRODUCTION

This bulletin presents an analysis of the reports received by the Bureau of Business Research from one hundred ninety-seven retail shoe stores for the year 1919. These stores were located in thirty-seven states, Hawaii, and Canada. Of these stores, one hundred thirty had furnished reports previously and one hundred four furnished reports for both 1918 and 1919. From the reports of this latter group, several comparisions have been worked out to indicate changes that have taken place in the trade during the last year.

VOLUME OF SALES

The store with the smallest volume of business, from which a report was received in 1919, had annual sales of $10,700. The store with the largest volume of business had sales of $1,940,000. A report also was received from a company operating a chain of stores with aggregate sales exceeding $3,000,000.

In the following table the stores are grouped according to their annual net sales in 1919. The number of stores whose volume of sales falls in each group is indicated.

Net Sales, 1919	Number of stores
Less than $20,000	13
$20,000–29,000	18
30,000–39,000	26
40,000–49,000	18
50,000–59,000	23
60,000–69,000	14
70,000–79,000	10
80,000–89,000	6
90,000–99,000	7
100,000–109,000	8
110,000–119,000	4
120,000–129,000	6
130,000–139,000	5
140,000–149,000	1
150,000 and over	38

Among the stores that furnished reports for both 1918 and 1919, only three stores showed smaller net sales in 1919. The heaviest decrease was 15.7 %. Omitting four stores that opened branches during the year, an increase in net sales was shown by ninety-seven stores. In several instances the increase was slight; in other cases it was large. The greatest increase in net sales in 1919 over 1918 was 66 %. Of the ninety-seven stores, eighty showed an increase in net sales in 1919 between 10 % and 50 %. In twenty-one stores the increase in net sales in 1919 was between 10 % and 19.9 %; in twenty-seven stores between 20 % and 29.9 %; in eighteen stores between 30 % and 39.9 %; and in fourteen stores between 40 % and 49.9 %. The average increase in net sales in 1919 was about 25 % of the net sales in 1918.

With the rise in prices during the last year, the increase in net sales does not indicate accurately the relative number of pairs of shoes sold. Consequently, an inquiry was made this year as to the increase or decrease in the number of pairs of shoes sold in 1919 as compared with 1918. The object of this inquiry was to learn how the physical quantity of merchandise sold compared in the two years. This is significant,

because the number of pairs of shoes sold, rather than the value of the shoes as expressed in net sales, indicates the number of customers served. From the long-run standpoint, the number of customers served is fully as important to the shoe retailer as the volume of sales measured in dollars and cents.

From forty-four stores a definite answer was received to the question regarding the increase or decrease in the number of pairs of shoes sold in 1919 as compared with 1918. In eighteen stores the number of pairs of shoes sold in 1919 was less than the number sold in 1918, although the value of sales in dollars and cents was greater in nearly every case that could be tested. One store reported a decrease of 30% in the number of pairs of shoes sold. Two stores reported a decrease of 20%, seven stores a decrease of 10% to 15%, and eight stores a decrease of less than 10%.

From twenty-six stores an increase in the number of pairs of shoes sold in 1919 was reported. In eleven stores the increase in the number of pairs of shoes sold was less than 10% of the 1918 sales. In ten stores the increase was between 10% and 16%; in four stores 20%; and in one store 35%.

There is no reason to suppose, so far as the Bureau can judge, that the experience of the merchants who furnished this specific information was very different from that of other shoe retailers. If this be true, it is apparent that the increase in net sales in 1919 was due more largely to the rise in the prices of shoes than to the changes in the number of pairs of shoes sold.

In order to determine the kind of merchandise sold in 1919, an inquiry was made regarding the sales of men's, women's, and children's shoes, rubbers, findings, and hosiery. Each merchant was asked to state the percentage of each kind of merchandise to the total sales of his store.

In a majority of the stores the sales of men's shoes were from 25% to 30% of the total sales. In only one-eighth of

the stores did sales of men's shoes amount to 40 % or more of the sales.

Women's shoes constituted about 50 % of the total sales in a majority of the stores from which reports were received by the Bureau. Only two merchants stated that their sales of women's shoes were less than 30 % of their total sales. A substantial number reported that their sales of women's shoes were more than 60 %.

The sales of children's shoes generally were from 12 % to 25 % of the total sales. In over one-half the stores the sales of children's shoes were not over 15 % of the total volume of business.

The sales of rubbers generally were less than 10 % of the total sales and in many stores not over 6 %.

The sales of findings apparently constituted a small portion of the sales in retail shoe stores, generally about 2 % or 3 % of the net sales.

The sales of hosiery in retail shoe stores also were small according to the reports. For twenty-four stores information was furnished regarding their hosiery sales, and in all but one of these stores, the sales of hosiery were less than 10 % of the total sales. In over one-half the stores the sales of hosiery were less than 5 % of the total volume of business.

OPERATING EXPENSES

Beginning with the figures for 1918, the Bureau has made two changes in the expense accounts to facilitate comparisons. These changes relate to buying and management expense and to interest.

Buying expense is provided for as a separate account in the System of Accounts for Shoe Retailers. Inasmuch as buying is a distinct function in a retail shoe store, there are advantages in keeping the buying expense separate from management expense even if this necessitates a division of

the proprietor's or manager's salary. Nevertheless, the Bureau has found that comparatively few shoe retailers are disposed at the present time to keep separate accounts for buying expense. Under these circumstances, better figures for purposes of comparison are obtained by combining buying and management expense in the tabulations for all stores. Hence, in the reports received for 1918 and 1919, buying expense has been combined with management expense. Salaries and wages of buying force are included with management and office salaries under the heading Buying, Management, and Office Salaries. Other buying expense is included with office supplies and other management expense under the heading Office Supplies, Other Buying and Management Expense. Any shoe merchant who keeps these items separate can readily combine them in order to compare his own figures with those given in the following summary.

The second modification of the expense accounts is the inclusion of interest, both on borrowed capital and on the proprietor's net investment, in expense. This is in accordance with the policy that has been adopted by the Bureau in its accounting systems for the other retail and wholesale trades that it is studying. Interest on borrowed capital is determined as is explained in the accounting system for shoe retailers. Interest on owned capital is the interest on the net investment or net worth of the business, exclusive of real estate. The value of real estate is excluded in determining the interest on owned capital because of the fact that the charge for the use of owned real estate is included under Rent.

Every business should yield the owner interest at a fair rate on the capital that he has invested. For the purposes of its investigations, the Bureau has decided that this interest charge should be reckoned as an item of expense. The capital, if not used in the business, could be invested elsewhere and obtain a normal rate of interest. By including interest

in expense, furthermore, experience has shown that opportunities for economy in the use of capital are emphasized.

The average net investment on which interest is charged here is the average net worth of the business for the year, not including real estate. The net investment is the sum of the assets (not including real estate) less the sum of the liabilities to outsiders (not including capital stock or surplus of a corporation or undivided profits). The assets include cash, inventory of merchandise on hand, equipment at depreciated value, notes and accounts receivable, and prepayments such as prepaid insurance. Good-will is not included unless purchased outright. The liabilities include notes and accounts payable and accrued items, such as unpaid taxes (not mortgage on real estate). A corporation determines its net investment in the same way as a proprietorship or a partnership, irrespective of the amount of capital stock issued. The capital stock authorized may or may not equal the net investment; hence the net investment is determined independently. The rate of interest used in calculating the amount to be debited to interest on owned capital is the ordinary rate on long-time, reasonably secure investments in the locality in which the business is situated. The account for Interest on Capital — Owned is credited with interest received on bank balances.

For bookkeeping purposes, the amounts that are debited to Interest on Capital — Owned are credited to Miscellaneous Profits and Losses, the same account to which rent of a building that is owned is credited.[1]

The following table gives a summary of the operating expenses in retail shoe stores in 1919. For each item of expense the lowest, highest, and common figures are stated. The lowest figure for each item is the lowest found in any store for that

[1] A more detailed explanation of the reasons for including interest in expense is given in *Bulletin No. 6, System of Accounts for Shoe Wholesalers*, pp. 27–33. That statement was published in 1916.

particular item. No one store had the lowest figure for every item. Similarly, no one store had the highest expense for every item.

The common figure is the figure that is the most representative. It is the figure that is known in statistical terms as the mode, the point around which all the figures tend to concentrate. It is worked out by scientific methods, which are not subject to influence by the extremes of either the high or the low figures. The common figure for each item, therefore, is typical; it is the figure to be used for purposes of comparison.

The percentages in this table are based upon net sales. The figure for net sales is determined by deducting returns and allowances from gross sales. The figure for net sales includes both cash and charge sales and represents the real volume of business done.

The following summary is based upon the reports received from one hundred ninety-seven retail shoe stores for the year 1919.

OPERATING EXPENSES IN RETAIL SHOE STORES IN 1919

Net Sales = 100 %

	Lowest	Highest	Common
Wages of Salesforce	4.79 %	14.91 %	8.3 %
PM's	...	3.29	0.5
Advertising	0.03	7.85	1.3
Wrappings and Other Selling Expense	0.05	1.17	0.2
Total Selling Expense	5.05	17.5	10.3
Delivery Expense	...	1.75	0.3
Buying, Management and Office Salaries	0.55	9.68	4.2
Office Supplies, Other Buying and Management Expense	0.02	2.27	0.3
Total Buying and Management Expense	1.27	9.78	4.5
Rent	0.59	8.94	2.3
Heat, Light, and Power	0.11	1.98	0.5
Insurance (except on buildings)	0.07	1.72	0.5
Taxes (except on buildings, income and profits)	0.04	1.67	0.4
Repairs of Store Equipment	0.01	3 86	0.2
Depreciation of Store Equipment	0.03	2.48	0.3
Total Interest	0.45	8.49	2.9
Total Fixed Charges and Upkeep Expense	3.41	15.36	7.4
Miscellaneous Expense	0.07	4.79	1.1
Losses from Bad Debts	...	1.95	0.2
Total Expense	13.62	35.63	24.0

Total Expense

In 1919 the total expense of operation in these retail shoe stores ranged from 13.62 % to 35.63 % of net sales. The common figure was 24 %.

Grouping the stores according to the volume of sales, it appears that in the stores with sales between $30,000 and $59,000 a year in 1919, the common figure for total expense

was about 23.1% of net sales. In stores with sales less than $30,000 a year, the total expense generally was slightly under 24%. In the group of stores with sales between $60,000 and $149,000 a year, total expense commonly was about 25.5% of net sales; and in stores with sales of $150,000 and over, total expense centered around 25.8%. It is apparent from these figures that total expense was slightly higher in the stores with a volume of annual sales above $60,000 than it was in the stores with annual sales of less than $60,000.

A comparison of the statements from stores that reported for both 1918 and 1919 showed that total expense was approximately the same in percentage of net sales in both years.

Selling Expense

The largest single item of expense in the shoe trade, as in most other retail and wholesale businesses, is wages of salesforce. This includes the payments made to salespersons and also a portion of the proprietor's or partners' salary in proportion to the time spent in selling. In 1919 the lowest figure for wages of salesforce was 4.79% and the highest figure 14.91% of net sales. The common figure was 8.3%.

A comparison of the reports from identical stores for the years 1918 and 1919 showed that there was little difference in the expense for wages of salesforce, in percentage of net sales, in these two years.

Advertising expense in 1919 varied from 0.03% to 7.85% of net sales. The common figure was 1.3%. This is approximately the same percentage as has been shown for advertising in previous compilations by the Bureau for the retail shoe trade.

A special inquiry was made this year regarding the advertising mediums used by shoe retailers. Answers to this question were received from one hundred eleven retailers. Of these, ninety reported that 50% or more of their advertising expenditures were used for newspaper advertising. Thirty-

one stores, over one-fourth of the total, spent from 90% to 100% of their advertising expenditures for newspaper space.

Six stores stated that they used trading stamps, with wide variations in the proportion that this item made up in their advertising expenditures. In one store trading stamps constituted 2.5% of the advertising expenditures; in another store 80%. Five stores reported the use of premiums; two used 5% of their advertising expenditures for this purpose, two 10%, and one 29%. Forty-five stores reported novelties; in three-fourths of these stores, not over 15% of their advertising expenditures were used for novelties. Forty-seven stores stated that they used circular letters; over one-half of them spent not more than 15% of their advertising expenditures for such letters, and most of the remainder not over 25%. Thirteen stores stated that they used street car cards, the proportion of their advertising expenditures used for this purpose varying from 2% to 50%. In most of the stores from which information was obtained, the advertising copy was prepared by the proprietor or a partner in the business.

Wrappings and other selling expense ranged from 0.05% to 1.17% of net sales in 1919. The common figure was 0.2%. For total selling expense the common figure in 1919 was 10.3% of net sales.

Buying and Management Expense

Buying, management, and office salaries ranged from 0.55% to 9.68% of net sales. The common figure was 4.2%. For office supplies, and other buying and management expense the common figure was 0.3%, and for total buying and management expense the common figure was 4.5% of net sales.

Fixed Charges and Upkeep Expense

For rent, which includes a charge whether the store is leased or owned, the common figure in 1919 was 2.3% of net sales. In ninety-seven identical stores the average expense

for rent dropped from 2.7% of net sales in 1918 to 2.3% in 1919. This indicates that, in general, rents did not advance as rapidly as the price of shoes rose. Numerous merchants held leases that were not subject to increase during the year. As might be expected, rents tended to be subject to less rapid fluctuation than prices of merchandise. As the prices of merchandise fall, furthermore, the percentage of rent to net sales in retail shoe stores probably will become higher than the common figure in 1919.

A special inquiry was made regarding the rent expense in a group of large shoe stores in large cities. Figures for this item were obtained from forty stores.[1] Their rent expense in percentage of net sales was as follows:

Rent (Percentage of Net Sales)	Number of stores (Large stores in large cities)
Less than 2%	5
2–2.9%	13
3–3.9	8
4–4.9	4
5–5.9	6
6% and over	4

From these figures, taken in comparison with those that have been received from smaller cities and towns, it is apparent that the difference in the expense for rent in percentage of net sales between stores in large cities and stores in small cities and towns was not great.

The differences in the ratio of rent to net sales for similar stores cannot be explained in all cases by the relative terms of leases. One store, for example, in one of the large cities showed a rent percentage nearly twice as great as the rent figure for another store located near by on the same street. The amount paid for rent in actual figures was approximately the same. The store with the low rent percentage, however,

[1] The reports for seventeen of these stores were included in the tabulation from which the summary on page 10 was prepared.

had much larger sales with the same floor area. In other words, it was utilizing its space more economically.

As has already been explained, interest, both on capital borrowed and on capital owned, is included in expense in this summary. Total interest, which is the sum of interest on borrowed capital and interest on owned capital, varied from 0.45% to 8.49% of net sales. The common figure for total interest was 2.9%.

Total fixed charges and upkeep expense ranged from 3.41% to 15.36% of net sales. The common figure was 7.4%.

Losses from Bad Debts

The common figure for losses from bad debts in these retail shoe stores in 1919 was 0.2% of net sales. It is interesting to note that in 1919 the expense for losses from bad debts in the retail shoe trade was nearly as high as in the retail grocery trade. The Bureau's summary for retail grocery stores for the year 1919 showed a common figure of 0.3% of net sales for losses from bad debts.

GROSS AND NET PROFIT

Gross profit is determined by deducting the cost of merchandise sold from net sales. The gross profit is the margin that covers all operating expenses and the net profit of the business. Net profit is the amount that remains after total expense is deducted from gross profit. Net profit, therefore, is the reward that the proprietor receives for embarking in a business at his own risk and the premium that he gets for good management. As a rule, a high rate of net profit is not due to a high gross profit but rather to economical management of the business as reflected in low total expense. It also may be due to wise buying, which avoids loss through depreciation and mark-down sales.

In 1919, the highest, lowest, and common figures for gross and net profit in one hundred ninety-seven retail shoe stores were as follows:

	Highest	Lowest	Common
Gross Profit	45.55 %	19.27 %	33.1 %
Net Profit (or Loss)	*Profit* 24.7	*Loss* 2.45	*Profit* 9.0

In the following table the figures for ninety-five stores are grouped according to the gross profit and net profit that the stores showed as a result of their operations in 1918 and 1919. The figures for 1919 are from the same stores as the figures for 1918, and this table shows the number of stores in each group. Thus, in both 1918 and 1919, one store showed a gross profit less than 20% of net sales. Ten stores showed a gross profit between 20% and 24.9% of net sales in 1918 as compared with eleven stores in this group in 1919. Five stores showed a net loss in 1918 and three had a net loss in 1919. The net profit was less than 3% of net sales in eight stores in 1918 and in ten stores in 1919. The table indicates similar comparisons for the other groups.

Gross Profit (Percentage of Net Sales)	Number of stores 1918	1919
Less than 20%	1	1
20–24.9	10	11
25–29.9	13	13
30–34.9	45	37
35–39.9	20	25
40% and over	6	8

Net Profit (or Loss) (Percentage of Net Sales)	Number of stores 1918	1919
Net loss	5	3
Net profit, less than 3%	8	10
" " 3– 5.9%	23	15
" " 6– 8.9	17	19
" " 9–11.9	21	20
" " 12–14.9	13	15
" " 15% and over	8	13

In this group of ninety-five stores the common figure for gross profit was about five-tenths of one per cent higher in 1919 than in 1918. The comparison of the reports from these identical stores showed that net profit generally was also about five-tenths of one per cent higher, in percentage of net sales, in 1919 than in 1918.

CASH DISCOUNTS

The ratio of cash discounts taken in one hundred forty-one retail shoe stores in 1919 varied from 0.01 % to 5.6 % of purchases at billed cost. The common figure for cash discounts taken was 2 % of purchases at billed cost. Although the greatest concentration for all stores reporting was between 1.7 % and 2.4 %, centering around 2 %, nevertheless enough stores were outside this group to indicate significant variations in the practice of merchants in taking discounts and in the practice of manufacturers and wholesalers in quoting discounts. In one group of stores the cash discounts taken were less than 1 % of the purchases. With few exceptions the volume of sales was less than $50,000 each in this group. Another group of stores showed cash discounts taken amounting to more than 3 % of the purchases at billed cost. A large majority of the stores in this group had annual sales in 1919 of more than $200,000 each.

In the grocery trade, discounts to retailers showed a narrower margin. In 1919, the cash discounts taken ranged from 0.01 % to 1.76 % of purchases at billed cost in the retail grocery stores from which reports were received by the Bureau. In selling to retail grocers the cash discount practice has been standardized to a high degree, but few wholesale grocers adhere to a one-price policy. In the wholesale shoe trade, the rate of cash discounts apparently is not standardized, but in many instances it is probable that cash discounts rather than the basic prices are modified in quoting prices to shoe retailers.

STOCK-TURN

In 1919, the lowest figure for stock-turn was 0.76 times, the highest 4.8 times, and the common figure 1.8 times a year. For the purposes of this compilation, stock-turn is determined by dividing the average of the inventory at the beginning of the year and the inventory at the end of the year into the net cost of merchandise sold. Inasmuch as inventory commonly is taken at a time when the stock on hand is low, these figures tend to give a result that is somewhat too high for the rate of stock-turn.

A better figure would be secured if it were possible to obtain monthly inventories of merchandise. This, however, is not possible at the present time, and since the conditions are similar in most shoe stores the figures that are used here are probably fair for purposes of comparison.

A number of retail shoe stores in 1919 had a stock-turn of less than once a year. Inasmuch as prices were constantly advancing during the year, this low rate of stock-turn was much less of a disadvantage than in normal times. Ordinarily a retail shoe store cannot show a net profit, at least for any length of time, if its rate of stock-turn is less than once a year. Furthermore, when prices begin to decline, a slow rate of stock-turn is certain to be a serious handicap. On a declining market rapid turnover is essential if a business is to avoid serious losses.

A comparison of the figures for stock-turn in ninety-nine stores, which submitted statements for both 1918 and 1919, showed that in these stores the common figure for stock turn was 1.7 times a year in 1918 and 1.8 times in 1919 — a slight increase. In both years, however, a substantial group of stores turned their stock more than twice a year.

Inasmuch as the retail shoe business is a two-season business, it might logically be expected that practically every well-managed store would turn its stock at least once a season;

that is, twice a year. Enough stores are turning their stock more than twice a year to indicate that a faster rate of stock-turn than is now being obtained in many stores is practical. This would hold for both large and small businesses.

The stores with a small volume of business generally had a lower rate of stock-turn than the stores with a large volume of business. In stores with annual sales less than $30,000, the average rate of stock-turn was 1.2 times a year in 1919. In stores with annual sales between $30,000 and $59,000, the average rate of stock-turn was 1.7 times; in stores with annual sales between $60,000 and $149,000, it was 1.9 times a year; and in stores with annual sales of over $150,000 the average rate of stock-turn was 2.1 times a year. In sixteen stores the annual rate of stock-turn was three times or more in 1919.

In stores with a low rate of stock-turn, total expense was higher than in stores with a high rate of stock-turn in 1919. In stores with a rate of stock-turn less than 1.3 times a year, the common figure for total interest was 4.1% of net sales. In stores with a stock-turn of 2.5 times or more a year, the common figure for total interest was 1.65% of net sales. This indicates the economy in the use of capital that comes through a rapid rate of stock-turn. In addition, the store with a high rate of stock-turn suffers less depreciation on its merchandise.

FINANCIAL FIGURES

The average inventory of merchandise on hand at the beginning of the year 1919 in the retail shoe stores from which reports were received was $40,400. The average inventory of merchandise at the end of the year 1919 was $53,500. Thus the average amount invested in merchandise was 32.4% higher at the end of the year 1919 than at the beginning of the year. This increase is to be accounted for primarily by the rise in prices of shoes.

From the financial statements that were received with the reports for the year 1919, the ratio of current assets to current liabilities at the end of the year has been worked out. This ratio was determined for one hundred forty-three stores. In one store the current assets were less than the current liabilities. In sixteen stores the current assets were from 1.3 to 1.9 times the current liabilities; in thirty stores from 2.0 to 2.9 times; in twenty-three stores from 3.0 to 3.9 times; and in seventy-three stores the current assets were more than four times the current liabilities. According to customary standards of rating credits, these figures indicate that a large proportion of these stores were in a sound financial condition. It is to be realized, however, that these reports were obtained from the more progressive stores which were keeping accounts that showed whether or not they were making a profit. Such stores are likely to be in a stronger financial position than other stores which cannot make out a reliable profit and loss or net worth statement.

Another comparison worked out from these financial figures for one hundred thirty-one stores was the ratio of accounts and notes receivable to average monthly sales. In one hundred fourteen stores the accounts and notes receivable at the end of the year were less than the average monthly sales during the year. In seventy-one stores the accounts and notes receivable were less than one-half the average monthly sales.

In the stores in which the accounts and notes receivable were less than one-half the average monthly sales, the expenses for total interest and for losses from bad debts were low. The stores with a low ratio of accounts and notes receivable to average monthly sales commonly showed a saving of about four-tenths of one per cent of net sales in these two items.

The ratio of accounts and notes payable to average monthly purchases also was worked out for one hundred forty retail

shoe stores. Owing to the lack of figures for comparison with previous years, the full significance of this ratio for the shoe trade cannot be determined. These figures should indicate, however, the extent to which credit was being granted to shoe retailers at the end of the year 1919 by shoe manufacturers and wholesalers. In thirty-seven of the retail shoe stores reporting, the accounts and notes payable at the end of the year were less than the average monthly purchases of merchandise. In forty-two stores the accounts and notes payable were from 1 to 1.9 times the average monthly purchases, in twenty stores from 2 to 2.9 times, and in forty-one stores the accounts and notes payable were more than 3 times the average monthly purchases. The highest figure for this ratio was 9.3 times. More than one-quarter of these retail shoe stores, therefore, were receiving credit at the end of the year in excess of their average purchases for a three-months period.

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